

# **CITY OF MISSION VIEJO**

Audit Report

## **SPECIAL GAS TAX STREET IMPROVEMENT FUND**

*July 1, 2003, through June 30, 2010*

## **TRAFFIC CONGESTION RELIEF FUND**

*July 1, 2004, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

July 2012



**JOHN CHIANG**  
**California State Controller**

July 11, 2012

The Honorable Frank Ury  
Mayor of the City of Mission Viejo  
200 Civic Center  
Mission Viejo, CA 92691

Dear Mayor Ury:

The State Controller's Office audited the City of Mission Viejo's Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2010. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2004, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$63,667 as of June 30, 2010, because it charged ineligible expenditures to the fund.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/bf

cc: Dennis Wilberg, City Manager  
City of Mission Viejo  
Cheryl Dyas, Director of Administrative Services  
City of Mission Viejo

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# Audit Report

## Summary

The State Controller's Office audited the City of Mission Viejo's Special Gas Tax Street Improvement Fund for the period of July 1, 2003, through June 30, 2010. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2004, through June 30, 2010.

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$63,667 as of June 30, 2010, because it charged ineligible expenditures to the fund.

## Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Traffic Congestion Relief Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

## Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Properly deposited TCRF allocations into an account designated for the receipt of state funds allocated for transportation purposes;

- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

## **Conclusion**

Our audit disclosed that the City of Mission Viejo accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2003, through June 30, 2010, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding required an adjustment of \$63,667 to the city's accounting records.

Our audit also disclosed that the city accounted for and expended its Traffic Congestion Relief Fund in compliance with Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2004, through June 30, 2010.

## **Follow-Up on Prior Audit Findings**

Our prior audit report, issued on May 21, 2004, disclosed no findings.

## **Views of Responsible Official**

We issued a draft audit report on April 27, 2012. Cheryl Dyas, Director of Administrative Services, responded by letter dated May 16, 2012, agreeing with the audit results. The city's response is included in this final audit report as an attachment.

## **Restricted Use**

This report is intended for the information and use of the City of Mission Viejo's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

July 11, 2012

**Schedule 1—  
Reconciliation of Fund Balance  
July 1, 2009, through June 30, 2010**

	Special Gas Tax Street Improvement Fund <sup>1</sup>	Traffic Congestion Relief Fund <sup>2</sup>
Beginning fund balance per city	\$ 1,725,370	\$ 157,695
Revenues	<u>3,714,793</u>	<u>866,158</u>
Total funds available	5,440,163	1,023,853
Expenditures	<u>(3,567,092)</u>	<u>(157,695)</u>
Ending fund balance per city	1,873,071	866,158
Timing adjustment:		
Accrual of June 2010 highway users tax apportionment (Governmental Accounting Standards Board Statement No. 34)	151,743	252,247
SCO adjustment: <sup>3</sup>		
Finding—Ineligible expenditures	<u>63,667</u>	<u>—</u>
Ending fund balance per audit	<u><u>\$ 2,088,481</u></u>	<u><u>\$ 1,118,405</u></u>

<sup>1</sup> The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5. The basis of the apportionments for sections 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. The audit period was July 1, 2003, through June 30, 2010; however, this schedule includes only the period of July 1, 2009, through June 30, 2010.

<sup>2</sup> Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Traffic Congestion Relief Fund. The audit period was July 1, 2004, through June 30, 2010.

<sup>3</sup> See the Finding and Recommendation section.

# Finding and Recommendation

**FINDING—  
Ineligible expenditure**

In fiscal year (FY) 2009-10, the city recorded \$63,667 of ineligible decorative holiday lighting expenditures in the Special Gas Tax Street Improvement Fund.

Streets and Highways Code section 21201 specifies that all highway users tax apportionments are to be expended only for street-related engineering, administration, construction, and maintenance.

**Recommendation**

The city must reimburse the Special Gas Tax Street Improvement Fund for non-street-related expenditures of \$63,667. Additionally, the city should ensure that future gas tax expenditures are for eligible street purposes.

**City's Response**

This letter is in response to your request for comments regarding the audit finding in the City of Mission Viejo Audit Report of the Special Gas Tax Street Improvement Fund July 1, 2003, through June 30, 2010 and the Traffic Congestion Relief Fund July 1, 2004, through June 30, 2010.

The City of Mission Viejo concurs with the audit finding "In fiscal year 2009-10, the city recorded \$63,677 of ineligible decorative lighting expenditures in the Special Gas Tax Street Improvement Fund."

The same company that performs allowable gas tax funded street lighting repair services for the city also provides some services that are ineligible for Gas Tax Funds. Some of these ineligible costs were inadvertently coded to the Gas Tax to the General Fund. The city has reclassified the ineligible expenditures totaling \$63,667 from the Gas Tax to the General Fund.

City staff has made aware of the error to prevent it from happening in the future.

**SCO's Comment**

The city agreed with the finding.



**Attachment—  
City's Response to  
Draft Audit Report**

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May 16, 2012

# City of Mission Viejo

## Administrative Services Department

Frank Ury  
*Mayor*  
Rhonda Reardon  
*Mayor Pro Tem*  
Trish Kelley  
*Council Member*  
Dave Leckness  
*Council Member*  
Cathy Schlicht  
*Council Member*

Steven Mar  
State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 942850-5874

Mr. Mar:

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City staff has made aware of the error to prevent it from happening in the future.

Sincerely,

Cheryl Dyas  
Director of Administrative Services



**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**